

UNIVERSITY OF CALIFORNIA  
COLLEGE OF AGRICULTURE  
AGRICULTURAL EXPERIMENT STATION

CIRCULAR No. 222

OCTOBER, 1920

## Fundamental Principles of Co-operation in Agriculture

BY G. HAROLD POWELL\*

---

A co-operative association is one in which the members form an agency through which they conduct their own business for their greatest mutual advantage. To be co-operative, it must be formed of producers exclusively, and managed by them, and the benefits must be returned to them in proportion to the patronage of each. The capital necessary to create the agency and its facilities should be contributed by the members in proportion to the use which each makes of it. Also, the capital contributions of each member should be kept progressively proportional to the individual shipments, or purchases, or other uses made of the agency, as nearly as this may be done.

The members may determine in each instance—having in mind the character of the industry and the necessities of production, storage, manufacture, distribution and sale—whether a producers' organization shall be formed with or without capital stock, whether it shall have equal or unequal voting power of members, or whether it shall pay interest or dividends on the capital. In considering the distribution of earnings, it is also fundamental that that part which is used as a dividend on the paid-in capital should not represent more than a reasonable rate of interest on the money advanced by the members; and, of the balance, if there is a net earning in excess of the dividend requirements, a small part may be placed in a reserve fund and all of the remainder distributed as a patronage dividend—unless other withholdings are agreed to in advance by the members. Whenever the interest or the dividends are considered as a profit,

---

\* General Manager of the California Fruit Growers' Exchange; former Assistant Chief of the Bureau of Plant Industry and former Pomologist in Charge of Fruit Transportation and Storage Investigations, United States Department of Agriculture; and in charge of Perishable Food Division, United States Food Administration, during the war, 1917-1919.

earned by the capital, rather than as a fair return for its use, the association is primarily a capitalistic and not a co-operative organization.

If it is a co-operative capital-stock corporation that is formed, it is fundamental that the capital either be contributed by the members in proportion to the use that they make of their organization, or else that there be a reasonable limitation on the amount of stock that a member may acquire. It is also fundamental, in that case, that the voting power of members be equal, or else that the voting power of each member be regulated within reasonable limits.

#### **THE DIFFERENCE BETWEEN A CO-OPERATIVE ASSOCIATION AND A PROFIT-MAKING CORPORATION**

There is an essential difference between a co-operative organization and a capital-stock corporation operated for profit. A capital-stock corporation for profit is founded on the earning capacity of the capital invested, and that investment is the basis of administration, and of control, and of the distribution of earnings. The co-operative organization, on the other hand, is founded for the mutual benefit of the members, while the earnings, or profits, are returned, not on the basis of the capital which each member has contributed, but rather on the volume of his shipments, or his purchases, or are proportional to any other use which he makes of the association. The foundation of the co-operative association is *men* and, preferably, each member has an equal voice in directing its operations; but in the capital-stock corporation for profit, the foundation is *capital* and the voice of the stockholder in its direction is proportional to the capital contributed by him. Therefore, a co-operative association, as contrasted with a profit-making organization, may be tested by the motive underlying its operations. In the former, it is operated for the mutual help of the members; in the latter, it is for the profit or advantage of the corporation itself.

#### **CONFUSION IN THE USE OF THE TERM "CO-OPERATION"**

There is much confusion in the use of the term "co-operation" as applied to agricultural affairs. This term, because of its popularity in the public mind, is commonly applied to any group of farmers who are associated for business purposes. It is used to describe voluntary, unincorporated associations; or incorporated capital-stock associations for profit; or stock corporations with reasonable limitation on stock ownership, and also on the voting power accorded to members, and

on the distribution of earnings; and again to organizations instituted for purposes of mutual help, without capital stock and not conducted for profit. In California, for example, many such organizations, whether they are formed and controlled by the farmers themselves or by others, are called "co-operative" and the term, because of the popular misconception referred to, is capitalized for business purposes.

One of the reasons for this confusion lies in the fact that the various states have not enacted uniform laws that provide for the formation of co-operative associations of farmers. The producers have, therefore, often found it necessary to organize under the general stock-corporation laws. Only about thirty-five states have, to date, enacted special laws that provide for the formation of producers' co-operative societies, and possibly ten states have legislation that permits the formation of associations without capital stock. The state laws vary widely in scope. Some of these special stock-corporation laws are very general—leaving the details of management, stock ownership, voting, and other matters to be worked out by the organizations—while in other states the laws outline, in precise detail, the method of forming an association and of conducting its business.

#### **THE NEED OF LEGISLATION RECOGNIZED**

There is a growing recognition of the economic need of organization by producers. The farmer, especially the small land owner, can no longer deal with his business problems as an individual because he now has to cope with organized industries in the production, distribution, and sale of his crops. If he is to meet these problems successfully in the future, he must join with his neighbors in forming an organization through which they can solve their common problems co-operatively, and he must have laws provided that will enable him to do this. Now, unfortunately, the legislation enacted by the federal and state governments is not always broad enough to meet the social and economic needs of the producer.

Congress fosters agricultural co-operation by making appropriations to the Department of Agriculture to educate the farmer to the co-operative idea, and many of the states appropriate funds with a similar end in view. For some time, the federal government has recognized that special legislation is needed to enable producers to organize without being subjected to the restrictions that are alleged to govern capital-stock corporations, which are organized for profit and are doing an interstate or foreign business. In the Clayton Act, which applies to interstate and foreign commerce, provision was made that

nothing in the anti-trust laws shall be construed to forbid the existence and operation of agricultural or horticultural organizations, instituted for the purpose of mutual help and *not* having capital stock or conducted for profit. Congress has recently considered further the necessity of organization by farmers, on a broader scope than the Clayton Act provides for, and, to balance this, has proposed to give some assurance to the public of protection against the possible evils of unrestricted organization by producers. In that case, the courts and the Department of Justice would have the power to enforce the suggestions and regulations of the governmental agency having supervision over these organizations.

#### FORMS OF CO-OPERATIVE ASSOCIATIONS

When the states shall have enacted adaptable laws which provide for the co-operative handling of business, it will not be material whether a co-operative association be formed as a non-profit, capital-stock corporation, or as a non-profit corporation without capital stock. The essential thing which a group of producers should determine is that the law under which they incorporate actually provides for the conduct of their business along co-operative lines, and that the statute is adaptable to the particular kind of co-operative business which they propose to transact.

If incorporated as a capital-stock corporation, the association may still be co-operative if the law under which it is formed is general in character and permits the members to direct its affairs along co-operative lines; or, if the method of voting, and the method of transferring stock, and the limitation and control of membership or of stock, and the distribution of earnings, or gains, according to co-operative principles, are all specified in the statute.

If the organization is incorporated as a non-profit association without capital stock, the member, instead of receiving a certificate of stock, is issued a certificate of membership which can not be transferred or assigned to any other person, nor is the purchaser of the property of a member entitled to membership by virtue of his purchase. In such associations the method of voting, and the control of membership, and the distribution of earnings are subject to rules made by the association—unless these details are specified in the statute. These associations may provide a capital with which to conduct their operations, such capital to be accumulated, pro rata, from the proceeds of the shipments, or, from membership fees apportioned on the bearing acreage of each member or on his present or future shipments, or, in any other way agreed to among themselves.

**A STOCK CORPORATION FOR PROFIT NOT THE FORM FOR A CO-OPERATIVE ORGANIZATION**

The stock corporation for profit is not a desirable form under which to incorporate a farmers' business organization. General stock-corporation laws have been drawn primarily to meet the requirements of capital and not for the benefit of the members of a co-operative agency. The membership in a profit corporation is not usually under legal control, because the right to transfer or sell the stock is a legal right incident to its ownership. Therefore, a stockholder may sell his farm and continue as a stockholder in the corporation, still retaining the right to examine its affairs and participate in its management; or, he may withdraw from the association and still retain the same legal rights as long as he owns the stock; or, he may sell his stock to some one not interested in the association at all or who is even antagonistic to it. There is no legal method under the general profit-corporation laws by which the stock, and therefore the control of the organization, can be confined to the membership after the stock has been issued, unless the stockholder has agreed in advance to sell it to the association, if allowable under the laws of the state, or to turn it over to a trustee until it can be resold to a member. Neither is the voting power of the stockholders under control, unless the method of voting is agreed upon in advance—because the voting power is generally proportional to the number of shares held by each stockholder. Nor can the earnings be returned to the members as a patronage dividend unless agreed to in advance by the stockholders and unless the stockholders representing the majority of the stock actually abide by the agreement. The practical difficulty in incorporating a co-operative association under the profit-corporation laws lies in the fact that it is questionable whether all the above mentioned conditions agreed to by the stockholders are legally enforceable and whether the organization might not possibly cease to be co-operative whenever stockholders representing a majority of the stock desire to exercise their legal privileges.

Experience shows us that a farmers' association that has been organized under the general stock-corporation laws is on an unstable foundation, not only because the stock can not be controlled, but also because of conflicts that may arise between the stockholders and the members.

In illustration of the previously mentioned commercialization of the use of the term "co-operation" there are many so-called "co-

operative" organizations (shrewdly formed) that make a profit for the corporation, on the product or the purchases of the grower, by retaining the control of the facilities through which his business is handled. In the fruit industry, for example, the packing house may be owned and controlled by the organizers and a large dividend paid the stockholders and other withholdings deducted before the grower receives his returns. A profit which is made by the sale of supplies to members, and earnings—made in various indirect ways—is returned to the stockholders as a dividend instead of being paid to the producer as a patronage refund. Such an organization, obviously, is not co-operative because it is not formed or managed for the mutual benefit of those who utilize its facilities, but rather for the stockholders who have their capital invested in the undertaking.

#### **FINANCING A CO-OPERATIVE ASSOCIATION**

Unless a co-operative association of producers is adequately and soundly financed, by its own members, it invites disaster. Two kinds of capital are usually required: a permanent-capital for buildings or other facilities and a working-capital from which to advance money to the members before the returns are received from the crops, and to meet the running expenses of the organization.

The method of financing will depend on the nature of the organization and the character of its business. If it is to be equitable, the capital contribution of each member should be based on his patronage, whether it be in purchasing, storing, manufacturing, distributing, selling or other activities. In California, for illustration, a group of citrus-fruit growers who build a packing house contribute the permanent capital either by stock subscriptions or by membership fees. Such contribution is subscribed on the basis of the bearing acreage, the shipments, the number of trees or the other unit of each member. This capital contribution may be made in advance, or, by agreement, it may be paid out of the proceeds of the sales of fruit. If the payments are deferred, the association, protected by the subscription agreements with its members, gives a note to a bank and obtains the capital immediately needed to provide the facilities. This liability may be paid off when the subscriptions are received, or it may be deducted from the proceeds, or both.

The working capital of an association is usually obtained through bank loans either secured or unsecured by the directors, or through loans of members, or through the credit furnished the association by negotiable promissory-notes—which in turn are used as collateral for

bank loans—the credit thus loaned by each member having a pro rata relation to the use he will make of the association. Working capital is also secured by using “trade acceptances” as a security.

The reason the capital contributions of members of a co-operative association should not only be proportional to the use which each makes of its facilities, but should also be kept progressively proportional to his uses, is in order that the capital of the individual member may not become disproportional to his activities through lapse of time or as a result of changes in the amount of his patronage. If these capital contributions have been made on the basis of acreage, purchases, or shipments, a plan should be devised to keep permanent payments always proportional to the future extent of a member's business and provision be made that new members contribute on the same proportional basis. To effect this end, the members may agree to a redistribution of the capital from time to time, or, if so desired, there may be an accumulation-fund paid in on a basis similar to the original contribution, such fund to be used as an equalizer of the capital.

A certain large, co-operative, capital-stock organization, known to the author, which furnishes packing-house and orchard supplies to citrus-fruit growers, has devised a method of redistributing the capital on a proportional basis. The stockholders agree that they will readjust their stock in proportion to the amount of fruit which each shall ship through the marketing organization to which they belong—it being acknowledged that the shipments of fruit provide a fair basis for determining all contributions to the purchasing organization. Their agreement provides that a certain amount per box shall be deposited in a fund, called a “revolving fund,” and that the agency which handles it shall redistribute the stock from time to time in proportion to the shipments of the stockholders. Such a transaction is, in effect, a sale of stock by those who ship less fruit to those who ship more, thereby always maintaining among the stockholders a proportional equality of stock ownership. Instead of using a “revolving fund,” the readjustment of stock could just as well be made on an auditor's balance sheet similar to the adjustments of a clearing-house in settling with its member banks.

#### A CO-OPERATIVE ORGANIZATION MUST ORIGINATE FROM NECESSITY

A co-operative organization, if it is to be permanently successful, must grow out of economic necessity and must crystallize around a specific economic question. The reason for its existence must lie in

some vital service which it is able to perform if it is to have strength enough to live in the face of the competition to which it will be instantly subjected. It will have to compete with existing organizations and this competition will be directed toward its elimination. It will be vigorously attacked and every conceivable form of misrepresentation will be leveled against it, and every weapon known to competition, fair or unfair, will be used to put it out of existence.

The average farmer is not a business man nor is he skilled in the arts of competitive business. He is naturally a strong individualist, trained for generations to depend upon his own efforts, conservative, slow to delegate authority over his affairs to any one, and reluctant to yield any part of his individual freedom by limiting his own action or by conforming to that of his neighbors. When he is faced with the skillful arguments of those who aim to disrupt his organization, he too often weakens and may even leave the association, unless he has felt the pinch of hard times or has known the helplessness resulting from a combination of those who buy or sell his products, or has felt the burden of excessive freight rates and the effect of overproduction or of other forms of oppression. Unless the producer has an abiding conviction that his present individual methods are ineffective and that he must act co-operatively with his neighbors, his organization, no matter how sound or perfectly drawn in form, will lack that cohesion which gives an enduring spirit to co-operation. The co-operative spirit must grow slowly. It is, in fact, a point of view, and the farmer acquires it as a permanent conviction only when it comes to him, step by step, out of the abundance of his own experience.

#### THE MEMBERSHIP IN A CO-OPERATIVE ASSOCIATION

The membership in a co-operative association should be confined exclusively to producers who actually use its facilities. Those who contribute capital alone should never be admitted to membership, because, as already set forth, the capital contribution should be the medium through which the members provide the facilities for the transaction of their own business; therefore, it is never desirable that capital be furnished by non-producing business interests which would thereby acquire an interest in the corporation and a voice in its direction, though organizations have been formed by public-spirited business men who realized the value to the community of the co-operative movement before the farmer was alive to the need of organizing and financing his own operations. Many so-called co-operative associations have been assisted by business men, dealers, or others who pro-

mote the organization simply for their own profit or as a means of securing a hold on the business of the farmer. But, in either case, such organizations are fundamentally unsound because the impetus to co-operate must spring from within, from the necessities of the industry, and not from without. Membership in a co-operative association carries with it a responsibility on the part of each member to maintain it in periods of adversity. The farmer must, of course, realize the necessity for the organization and that it is his own institution, developed and managed by him through his chosen representatives, to promote and protect his interests.

Fairness, the absence of jealousy, mutual confidence, and loyalty are fundamentals in successful co-operation—and the will to co-operate must dominate the membership.

One of the vital problems that a co-operative organization always has before it is to keep alive the interest of its members. In selecting directors who are competent to represent them and officers who are skilled in business and in the leadership of men, the growers may acquire a feeling that their association is an outside agency formed to transact business for them rather than one which they themselves operate. To maintain the interest of the grower, directors' meetings should be open to the members and they should be urged to attend. Also, members should be kept posted on the business details and on the status of their industry. Frankness should be the watchword of the management, and exact justice, a square deal and equality of treatment and of opportunity should be the attitude of the directors and of its management in all their relations with the members. Frequent membership-meetings are a vital aid in developing the spirit of co-operation. Discussions of the business problems of the association, questions that confront the industry, the relationship of a co-operative association to the public; social features which diversify the interest of the business meetings: all of these activities develop a community spirit of co-operation that no outside influence can undermine.

#### THE VOTING POWER OF MEMBERS

In a strictly co-operative organization, the "one-man-one-vote" principle should be adopted as fundamental though the objections to unequal voting power are somewhat lessened where the financial contribution of each member is made proportional to his use of the organization and is kept progressively so. Under these conditions, the number of votes accorded each member may be made proportional to

the capital contributed by him or to the use which he makes of his organization. However, in the case of members with very large interests, it is advisable that some limitation be placed on the voting power. Since a co-operative association is an operating industrial democracy in which the members trust each other as *men* it should preferably be founded on equality of membership—whether the member contribution of business or of capital be large or small—because neither the capital nor the volume of business contributed is the infallible measure of a man's fairness and judgment. A frank recognition of the equality of membership is the best evidence of mutual confidence in co-operation, because, in the final analysis, it is the members who, as men, co-operate in these organizations and their success depends on their belief in each other and on their fairness in dealing with their mutual business problems.

Therefore, whenever the voting power of the member is increased in proportion to his capital contribution or his other use of the organization, the basic principle of mutual trust, confidence and equality is essentially diminished and the property right of membership is thereby substituted as a basis of direction and management.

There is usually a strong sentiment against the "one-man-one-vote" principle when first presented to the average producer; the large contributor foresees control by the men with smaller property interests and the small landholder fears domination by his more powerful associates. But the history of the co-operative movement, both in Europe and in the United States, proves clearly that this adverse sentiment is merely a fear and not an actual result of practical operation and that danger arises more often from inequality of voting, which is likely to develop jealousy and a group domination within the organization and to lead to the feeling that the right of property, rather than the equality of men, is the principle underlying the direction of the organization. Equality of membership, on the other hand, strengthens the will to co-operate and develops, in the man of small interests, the confidence to express himself on matters of administration and also creates, in those of larger holdings, a respect for the rights of the smaller property owner.

#### MEMBERSHIP AGREEMENT

Co-operative organizations must be held together by an agreement or contract between the organization and each individual member. It is desirable that all agreements cover the incorporated life of the association and not a short period of time and that the member have

the right to withdraw at the close of the fiscal year whenever he shall have given notice in advance of his intention to do so. This enables the management to know definitely what it is expected to do, to gauge the volume of business to be handled, to estimate the expenses to be incurred and the obligations to be met, and to make the preparation necessary to conduct its affairs. Without such contract or agreement, especially in a new association, no organization can achieve the degree of permanency and integrity that is essential to a business undertaking of this kind. Buildings and their equipment may be needed, it may be necessary to erect warehouses, to purchase supplies, to develop a sales agency and to project a campaign of advertising over a number of years. Timber lands for box material—with lumber mills and box factories—have even been acquired by the most successful of these organizations. It is obvious that such undertakings can only be accomplished when there is a definite membership responsibility covering a reasonable period of time.

No form of contract will hold the membership together indefinitely unless the benefits of the organization justify its continuance but the human side of some men has not yet evolved to that ideal state in which a temporary advantage offered them may not blind them to the permanent values of their own association. Therefore, voluntary membership is not practicable. Always, too, there are opportunists who take no interest in the real problems of agriculture and do not see their position as part of a great working whole—that is, they have little consciousness of the larger factors influencing the disposition of crops, and, in their disposal, are rampant speculators buying and selling to individual merchants and speculators. The opponents of the co-operative system, understanding this psychology, tempt the speculative farmer with offers of high prices as a means of strengthening themselves in the community and, unless this type of producer has formally bound himself to his association by a contract to handle all of his produce through it for a given time, the buyers may draw heavily from the membership and thereby weaken its financial and business stability. A large proportion of the failures in co-operative marketing have been due to the irresponsibility of the membership when an association has been subjected to competitive fire. Then if the association has insured liabilities, based on the expected loyalty of its members, it finds itself not only with a reduced membership but also with a correspondingly reduced income with which to meet its liabilities. Though the contract is essential to stabilize an association, it is clearly apparent that the best success will only follow when a majority of its members are convinced that the co-operative principle

is most beneficial, ultimately. This conviction will be strong enough to hold them together when their opponents attack them—providing it is reënforced by the successful returns of the association itself in the management of its business.

It is equally true that all questions which affect the permanently successful development of an industry can only be worked out by the producers themselves because no one but the producer has a primary, vital interest in production. The national distribution and marketing of a rapidly increasing crop, the development of new markets, co-operation with the wholesale and retail trade for the purpose of evolving the best methods of salesmanship, national advertising to increase the consumption of products are the vital arteries through which an industry grows and can only be developed co-operatively. The buyers of agricultural crops are not sufficiently organized to deal with any of these broad industry problems in a comprehensive way. While the growers' primary interest is in the permanent prosperity of his industry, the buyer is primarily interested in the success of his immediate transactions. Therefore, it is to the man who owns the land and whose investment runs into the future that we must look to incur the financial liabilities that safeguard the life of the industry.

#### THE MANAGEMENT OF A CO-OPERATIVE ASSOCIATION

The management of a co-operative organization is vested in a board of directors and a manager selected by them. The directors are the legal representatives of the stockholders, or members, and are responsible for the general welfare of the organization. The manager is the executive head of the organization. The general powers of the association should be exercised and controlled by the board of directors and upon the strength of this board will depend the stability of the association. Each director should, of course, reflect the sentiment of his constituents and should generally be governed by them in making his decisions, but he should, naturally, have had broad business experience and be, in a position, therefore, to see the problems of the organization in deeper perspective than the average individual grower. He must not fail to exercise his independent judgment, uninfluenced by prejudice or local pressure.

No co-operative association can succeed unless it has the services of a manager who is competent to handle the unique duties that are incident to that position, and to surround himself with able associates. The association will grow in proportion to the vision which its manager shows in foreseeing the needs of the organization and in presenting

them for the consideration of the directors. He must possess keen discrimination in the selection of associates who are competent to handle their respective duties, and display sympathy and understanding in the development of their initiative and capacity for responsibility, if the work is to be successfully co-ordinate, and the organization act as a complete unit.

The lack of vision displayed by the members of many co-operative associations lies in their failure to appreciate the value to themselves of a high order of ability on the part of their employees. Dealing with complicated business problems, and with men, has not been a part of the farmer's experience and, not being skilled in maintaining these relationships, he underestimates the grade of ability needed to manage a business of an agricultural organization. Failures because of inefficient management are usually traceable to an unwillingness on the part of the membership to offer salaries which are adequate to attract efficient employees. The individual producer is likely to gauge the tasks of management by the size of his own business and too often, his judgment falls short when he assumes the responsibility of providing the management for a collective business.

It is difficult to overestimate the delicacy of many problems connected with the management of a co-operative association as compared to those of the usual corporation. The stockholders of the latter usually enter the business as investors and are not identified with the business as producers. The producer, on the other hand, is vitally interested in the details of his own business and he is likely to take an active part in the conduct of its affairs. By so doing he contributes one of the most valuable assets to co-operation, and, if the manager is alert in utilizing it, he enlivens the interest of the growers. The integrity of the management must be beyond reproach: it must be free from entangling business alliances and from participation in any secret profits arising directly or indirectly from handling the business of the organization. Above all it must develop the principle of the square deal.

Because any organization represents power—and the larger the organization the greater its power—its great danger lies in becoming involved in political affairs, and in movements which, though worthy in themselves, have nothing to do with its primary purposes and can only lead to a divided membership and factional control with ultimate disruption. The severest test put upon the manager, therefore, will probably be that of holding the organization to its primary purposes and he must be fearless of criticism in maintaining this policy.

**A CO-OPERATIVE ORGANIZATION SHOULD BE FOUNDED ON A  
SPECIALIZED CROP**

The best results are obtained in co-operation when an organization is founded to handle a special crop and when the locality in which it operates is comparatively limited in area. When he steps outside his sphere as a producer, the average farmer does not often succeed except in the special agricultural industries that have been developed by men of unusual experience and ability. Since each industry has its own individual problems to solve, its special difficulties to overcome, and its particular trade practices and connections with which to deal, an indiscriminate organization of growers is generally very unsatisfactory in practical results. There are a number of examples of co-operative organizations in America that have been formed to handle general crops—sometimes even operating through a number of states—but none of these movements have been successful because of the diversity of needs of the various products which can only be dealt with by individualized administration. To cite a specialized industry, which has shown a unity of organization never before attained on the co-operative plan in the United States, the citrus-fruit growers of California—who faced extinction as producers twenty-five years ago because of the inadequacy of their marketing practices—are an illustration of the advantage to an industry of this exclusive form of crop handling. Because each grower is interested in improving the methods of production, in enlarging the consumption of a rapidly increasing crop, in decreasing the cost of distribution and marketing, in enlarging and creating markets, in securing reasonable transportation rates and good service he naturally has problems to solve and a diversity of trade connections to make which are unknown to members of other industries and which can only be met by specialized organizations. Should he belong to an association formed to handle general agricultural crops, including hay, grains and potatoes or such special crops as dairy products, poultry, deciduous fruits and vegetables, it is apparent that the administration of the organization could not be sufficiently specialized to meet his unique individual needs.

**A LARGE CO-OPERATIVE MOVEMENT SHOULD BE FOUNDED ON  
INDEPENDENT LOCAL UNITS WHICH FEDERATE FOR  
GREATER BUSINESS EFFICIENCY**

A large co-operative movement should be founded on independent local units which, for greater business efficiency, federate and form an agency through which they handle their common problems. This

means that each unit builds a packing house or provides other facilities, employs a manager, installs the necessary equipment—the growers themselves thereby owning and directing their local units. The central agency is the co-operative whole and represents the personnel of the combined societies in their business and public relationships, but it must never be lost sight of that the central body must be representative of active, independent units, rather than an organization which owns and controls them. This is the true democratic principle as opposed to the autocratic system of organization and it is just as true here as in any other form of co-operative government that the individual unit must be the foundation. Any attempt to put the ownership of local plants or the direction of local affairs under the immediate administration of the central agency is a removal from co-operative principles to the old form of centralized corporate ownership and management.

Efforts are being made to do this very thing. Statewide corporations are being attempted in which the farmer becomes a stockholder. The central association then owns the equipment and facilities of each local unit and manages them, the farmer thereby becoming a part owner in local facilities all over his state. It would be impossible to overemphasize the unsoundness of such a movement from the co-operative point of view or the lack of stability which it presents as a business undertaking. This instability is due to the fact that no man takes as much interest or becomes as active in a situation removed from him as he does in his own local, individual affairs. It is necessary, in order to avoid confusion, to point out here that there may be cases in which, by establishing one or more general plants, under the management of the central association for the final finishing of their product, a group of local units may be spared the expense of each establishing a similar plant. In that case it is apparent that the central association has merely become more serviceable to its local units and has in no way attempted to assume control over them.

The activities of the central agency will, obviously, embrace all matters too large to be handled by the local units. It will, naturally, represent the local units in creating a national sales-agency; in acquiring timber lands for the manufacture of box material; in advertising the product to the consumer under a trade-mark under which the produce shall be sold and in establishing grading rules to cover the use of the trade-mark; in handling transportation matters or legislation directly affecting them and in all other common problems that are connected with the primary purposes of the local units. But the central organization should never do those things for the local units

which they can do efficiently for themselves. Rather should its underlying motive be to help the local units in the handling of their own problems; it should co-ordinate their activities, assist the weaker associations to grow, and, in its capacity as representative of their personnel as a group, give their industry dignity and business standing in the state and nation generally. It should never be overlooked that the strength of a co-operative federation lies in the vitality of its local units and that a central agency, formed in this manner, can be no stronger than its individual components.

Aside from the principles of industrial democracy previously set forth, there is no way in which the community spirit can so well be developed as by the formation of locally controlled units. The product of each community differs from that of every other because of climate, soils, altitude, or other environmental factors, and such community characteristics should be a local asset and should not be confused with that of any other locality. Not only is it desirable that the product of a unit be similar, but, even more, that its members be personally acquainted, because confidence in one another is so necessary to co-operation. Also, it is most helpful to develop a community pride in the product and to promote a spirit of emulation in the production of the highest grade possible to that locality. Each community will become known by the quality of its produce and should use a separate brand of identification. This local brand will supplement the brand—or possibly the trade-mark—of the central agency and will be the means by which the trade identifies the quality of the produce of different localities, while the brand of the central agency will become known to the public generally. No association should use the brand of the central organization exclusively unless the character of its product is so uniform with that of all other members of the central association that there are no measurable gradations.

The establishment of uniform grades for agricultural produce is one of the most important questions confronting American agriculture. It is important not only to the producer but equally so to the consumer. The waste that occurs in ungraded and badly handled products is one of the leading causes of the high cost of distribution because this waste must either be deducted from the farmer's price or added to the legitimate cost of distribution. It is equally important to the wholesale and retail dealer because a system of merchandising which includes low gross margins on the sales is impossible unless foodstuffs are uniform and dependable in grade and in keeping quality. Individual farmers can not grade their produce uniformly unless it is harvested, sorted and packed under the direction of an association, because, even

after a standard of grading has been established, no two persons can interpret it in the same way. It is obvious, also, that an individual farmer does not grow enough produce to enable him to establish a reputation for its quality, particularly with the consumer. But when the produce of a community is harvested, graded, packed and sold under rules and regulations established by a local association, and, carrying organization further, when the produce of a number of associations is graded and sold under minimum standards established by a central agency—then the produce of a community, and even of a state, may become known to the trade and to the consuming public generally.

It is advisable, at this point, to enumerate certain fundamentals of harvesting, grading and packing, which, if not understood by a co-operative association, are likely to result in its failure. Experience has shown that the average individual grower does not possess skill enough in handling these matters to enable an association to establish a standard grade, and therefore create a reputation for its product. Bad handling in harvesting or packing—which results in poor keeping quality in perishable foods—careless and even dishonest grading are not uncommon conditions in associations in which the handling of the product is controlled by the individual members.

A uniform grade can be established by having the product of the individual members handled under the supervision of the association, either by the members themselves, or, for the members, by the association. The former method is followed in many deciduous-fruit associations. The latter is the usual method in the citrus-fruit industry; the association actually picking the fruit, delivering it to a central packing-house and there grading and packing it, thereby establishing not only a uniform grade but uniformity of keeping quality as well. The successful outcome of a co-operative marketing association will be determined by the uniformity of the grades which it offers for sale.

To have a single organization cover a too widely differing territory is therefore seen to be undesirable, and, because of these reasons, no combination of farmers in a central state or nation-wide organization has yet been successful. On the other hand, the most enduring co-operative efforts are those in which local units are confined to a restricted district producing a uniformity of product, and are, in turn, federated into a central agency through which they handle their common problems.

It is impossible to overestimate the value to a community of a well organized co-operative movement. Producers form the habit of work-

ing together, they develop the will to co-operate, and this spirit of co-operation results in a mutual working out of all matters that affect the social, economic, and civic betterment of the community.

#### THE RELATION OF THE PRODUCER TO THE COST OF DISTRIBUTION

There should be the closest co-operation between a producers' organization and those who distribute its crops because the distributor performs a vital service in bringing the producer and the consumer together. These distributors, or middlemen, are necessary both to the producers and to the public because it is impractical and uneconomical to sell any large share of our farm crops direct from producer to consumer. As long as such intermediaries distribute farm crops efficiently and economically, considering the risks and the investment incurred, but exclusive of excessive profits, they are economically desirable from every point of view. The average farmer is not in a position to distribute his own crops directly to the consumer or even to the retail dealer. He has neither the capital to assume the risk nor the knowledge necessary to develop a far-reaching mercantile agency, which not only requires large amounts of capital but also a highly specialized distributing organization.

Even among our largest agricultural industries, there are few products grown in sufficient volume and with enough regularity in supply from month to month and year to year to warrant the experiment of building up a jobbing organization. The hazards of such an undertaking should be pooled among many farming industries through our present jobbing system.

It is well to point out that there are conditions in the wholesale trade that are sometimes detrimental to the interests of both the producer and the consumer. In some cities the fruit jobbing business, for example, is in the hands of a few merchants, who, through "gentlemen's agreements" attempt to fix the conditions of competition, the gross margins to be added to their sales—usually adding abnormally high gross margins and thereby greatly restricting distribution and sometimes imposing an excessive cost on the consumer.

The simplest method of distributing farm crops at present in commercial use utilizes three middlemen: first, the wholesale buyer, who purchases the crop from the producer or his association and who distributes it to the cities where it is sold to a jobber; second, the jobber, who sells it to the retail dealer; and third, the retail merchant, who sells it to the consumer.

Sometimes the producer consigns his commodities to a commission merchant, who, in turn, sells them to a jobber or to a retail dealer;

or the producer may sell through a broker to the jobber, or, through an auction company, to the wholesale or retail trade. In some highly-organized, co-operative farmers' associations, the distribution of the crop is co-ordinated and through a central clearing house is sold direct to the jobbers in all markets by means of agents which these co-operative organizations locate in the principal consuming centers. Under this system, which is possible when a large volume is to be handled, the initial cost of distribution to the wholesale trade is materially reduced.

There are also a number of more complicated methods of distribution, some of which are economically serviceable, while others impose an unnecessary expense on both producer and consumer. But, whatever the system is, it is usually the product of a commercial evolution developed by the conditions of production, the conditions of distribution in the towns and cities, and the service demanded by the consumer—to all of which it has gradually been adapted. The gap between the producer and the consumer can be most efficiently and economically bridged only when there is a mutual understanding among all of the parties concerned in regard to the distributing problems involved, and when the producers are organized and in a position to co-operate with jobbers and retailers in simplifying and reducing the expense of distribution.

Generally speaking, the expense of distributing a farm crop to the consumer—not including the cost of transportation but only including the gross expense of the distributing agencies—represents 50 per cent of the price paid by the consumer. In some industries the gross expense may be less, in others even more. For example, the gross expense of distributing fruit from the producer to the jobbing trade varies from  $1\frac{1}{4}$  per cent of its delivered value, when it is done by a highly organized producers' association, to 7 per cent or more, when handled by wholesale buyers or shippers' agents. The gross margin of the jobber in selling to the retail trade varies from 6 to 15 per cent or more of the selling price, depending upon the character of the produce and the expense of conducting business in the particular locality. The gross margin of the retailer varies from 15 to 35 per cent or more, depending on similar factors and upon the class of consumers served and the amount of service, such as credit, delivery, etc., which they demand and for which they must pay.

The expense of distributing a crop from the producer to the consumer is influenced by several factors, the first of which is the conditions under which the producer handles his crop. The shipment or sales of small lots of variable and ungraded produce by the individual

farmer imposes a high expense on all who handle it because the buyer, the commission merchant, the jobber or the retail dealer can not handle small quantities of foodstuffs economically, and the lack of uniform grades adds risks and uncertainties. Volume is essential to an economical overhead expense in any business, and uniformity and regularity in the supply is of equal fundamental importance. Poor handling, which results in deterioration after the crop leaves the farmer's hands, adds to the expense of distribution and often necessitates repacking by the shipper, the jobber or the retail dealer, or, perhaps, by more than one of them. Likewise, if the supply is irregular, the grading variable, and the containers not of standard type, those who handle the distribution must of necessity add a larger gross margin to every sale to cover the consequent risks and losses.

The first step in making a reasonable cost of distribution possible is the organization of producers, because only in that way can a large volume of standardized foodstuffs be provided and sold. Then, if the conditions are favorable, the producers' organization can sell its products in the primary markets at a lower expense than is at present possible for the small individual buyer or the shippers' agents. This creates a dependable supply upon which the wholesale and retail trade can reply and specialize, and reduces the gross margin of profit.

By way of illustration: Twenty-five years ago, it cost the unorganized citrus-fruit growers of California from 10 to 15 per cent or more to have their fruit sold to the jobbers. At the present time, it costs the individual grower from 7 to 10 per cent to sell it in the same manner. One producers' organization, with eleven thousand members, distributes and sells through its own agents seventy-five million dollars' worth of citrus fruit annually to the jobbers of the United States and Canada at a total marketing cost of less than  $1\frac{1}{2}$  per cent of its delivered value. It furnishes regular supplies of uniformly graded fruit to the different markets, and the jobbers and retail dealers are selling this fruit at gross margins not much larger than those applied to the sale of non-perishable foodstuffs and at the lowest gross margins, so far as we know, that are applied to any other fruit crop.

The gross margins added by the wholesale or retail trade depend also on the system of merchandising which they adopt. Many merchants operate with a relatively small volume and a high gross margin of sale, but the average up-to-date merchant turns his stock quickly at a low gross margin per sale and at the end of the year has made a larger net profit because his volume of business has been enlarged. He has also had less loss from spoilage in his product because of its quick sale. It is possible to reduce the expense of dis-

tribution from the wholesale trade to the consumer by a wider adoption of the principle of quick sales to bring larger volume at lower gross margins per sale, thereby benefiting both the dealer and the consumer. This question is of such vital importance to the producer that one of the citrus-fruit producing organizations maintains an educational department through which it co-operates with the wholesale and retail trades in the development of the most effective methods of fruit salesmanship—a co-operation which has been universally welcomed by the trades.

There is no mystery connected with the distribution of the nation's farm supplies, and there are few reforms that can be instituted in the distributing system unless it be through the development of such fundamentals as we have been considering. The adjustment between the producer, the transportation agencies, the various classes of middlemen, and the consumer is a subject of endless conflict. In the past, there has been much dissatisfaction with the distributing system, arising from the oppression of the producer by low prices, or of the consumer by high living costs. There is a popular feeling that the distributing agencies receive a maximum return on their capital and labor, or, at least, that they have organized the distributing system in such a complicated way that the producer is often prevented from sharing in the general prosperity to the extent that he feels his capital and labor have contributed, and that there is too great a difference between the price which the farmer receives for his product and that which the consumer pays. The consumer is equally disturbed and feels that he pays too high a price to the distributing agencies, when fifty cents out of every dollar's worth of food purchased covers the cost of its distribution.

It is clear to those who have given deepest study to the subject that although present abuses and unfair and dishonest practices may be eliminated, the principal reforms possible in the distributing system are in the handling of farm crops under conditions which permit of more economical methods of merchandising.

These fundamental conditions are of such vital importance as to bear restating. They include, on the part of the producer, the organization of co-operative associations through which a large volume of standardized food products can be sold with the waste reduced to a minimum by careful handling, as well as the elimination by them of all unnecessary middlemen between their organization and the wholesale trade in the cities and towns. On the part of the wholesale and retail dealers, it includes the adoption of the most economical method of distribution—a condition which can be best promoted by

dealing in standardized products of uniform grade; and, on the part of the consumer, it includes the realization of the service which modern living conditions have imposed on the retail dealer. As long as the consumer buys his supplies in small quantities under an expensive system of delivery and other service he is imposing on himself an expense which no one else can lower.

There should be no antagonism between the producer, the distributing agencies and the consumer. They are all living under conditions imposed on them by the present-day methods of industrial and social life. Rather there should be a careful study of the fundamental factors affecting distribution and a readjustment of practices on the part of every one concerned which will result in greater simplicity and economy in the distribution of foodstuffs.

Such other changes as may be desirable in the interest of economy and the creation of confidence in the distributing system include the development of wholesale terminal markets, the establishment of retail centers and improvements in the facilities of transportation, but, important as these are, they are secondary to the fundamental factors outlined above. It is also desirable to point out that though both the producer and the consumer have ever been ready to invoke the aid of the law to save them from the fate of modern conditions, any effort to reduce the cost of distribution through legislation—except as it furnishes a sounder basis for the organization of producers, establishes legal grades and standards for farm crops, prevents unfair or dishonest practices by producers or by the trades—is likely to result in the future, as it always has in the past, in disappointment. Anything that may be accomplished by the state or nation to help the farmer to a better understanding of his problems, as well as to educate the trades and the consumers, is in the interest of the public generally.

#### THE FUTURE OF CO-OPERATION

The future of co-operation rests not only upon the ability with which growers handle their business problems, but upon how well they meet the present, vital questions which are leading to world-wide social and economic unrest. A co-operative organization can not live for itself alone. It must scrupulously fulfill its public or social relationship as well as its relationship to its own members.

A co-operative organization of fruit growers, for example, should be an important factor in reducing the cost of living, as well as in insuring the growers a fair price for their fruit, if it is to play a vital part in future social and economic life. The producer is entitled to

a fair return on the cost of production, if the law of supply and demand warrants it, but he is not privileged, through the power of organization, to impose a higher price on the consumer than the law of supply and demand justifies.

With the rapid rise in costs during the last few years, efficiency in production and marketing has become even more vital to the farmer, as well as to the public. The prices received for perishable farm products are determined by the conditions of supply and demand, and the impact of world wholesale prices, while costs of production exert only a remote influence.

The farmer finds it difficult to pass on to the consumer his increased costs. With, for example, an increase in freight rates, he finds himself at a disadvantage in comparison with the manufacturer who determines his selling prices on the cost-plus basis. The farmer, who, through years of expensive care, has brought his orchards into bearing, can not suddenly curtail his production when the public refuses to pay a price that will leave him a fair return on his labor and investment. He can get only what the public is willing to pay. Increased costs of materials, or increased freight rates, for example, do not of themselves make buyers willing to pay more. But the producer of perishables must sell, even at a loss, or allow his products to rot in the fields, or perhaps, send them to by-products plants at a very moderate return.

Economy in production, efficiency in packing, intelligent distribution, thorough standardization, the elimination of decay, co-operative purchasing of supplies, the development of by-products, and a systematic effort to stimulate demand constitute the growers' opportunity to meet rising costs. And to avail himself of these opportunities requires co-operation, the handling of a large volume through a central agency, and a high type of organization.

The co-operative association that accomplishes these economies and reforms is reducing the cost of production and marketing, and conferring a direct benefit upon both producer and consumer.

These are public obligations that should be inherent in the legal privilege of producers to organize. They are responsibilities which no co-operative organization can ethically avoid. No group of producers has the right to operate collectively if it uses its power of organization to restrict production, to lessen or arbitrarily control the supply, to permit avoidable wastes that result from improper handling in preparing produce for market, to speculate, to make profits not resulting from the law of supply and demand, to create any condition through the power of organization that is discriminatory or unfair

to the public or to a competitor, or, which permits a member, an officer, or an employee any advantage or preference that is not open to all alike.

A large share of the cost of food is represented in the expense of selling and marketing. As a public question, co-operation takes on vital significance in these times of high living costs on account of the flow of population towards the cities. It must gain a new impetus and a new vision by standardizing its products and handling them with a minimum waste, and by simplifying the distributing process and reducing its cost it helps to meet a present, urgent social and economic need. Unless a producers' organization confers a benefit on the public at large, as well as upon the industry which it represents, its future as a vital part of the social and industrial fabric of the country is problematical. Its willingness and success in meeting such tests, as well as its ability to serve its members, will determine how large a part co-operation will play in the future growth of American agriculture.